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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of)
)
MCI Telecommunications Corp.)
)
Petition for Prescription of Tariffs)
Implementing Access Charge Reform)

CCB/CPD 98-12

CC 97-250

OPPOSITION OF BELL ATLANTIC

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Introduction and Summary

MCI's petition should be denied. Like a petulant child caught with its hand in the cookie jar, MCI tries to divert attention from its well publicized attempt at price gouging by pointing to others as the cause of its own misdeeds. Its attempts are unavailing. The facts show that MCI not only broke the promise it made to this Commission to pass through hundreds of millions of dollars worth of reductions in per-minute access charges over the last year to its customers, but has aggravated the offense by joining its fellow long distance carriers in imposing well over *two billion* dollars in increased charges to consumers this year when the long distance carriers own costs in fact went down again.

In terms of its substance, the petition is a hodgepodge of old, new and borrowed claims that are linked only by the absence of any genuine legal, factual or policy basis. For example, MCI regurgitates its previously rejected claim that the Commission should

¹ The Bell Atlantic telephone companies ("Bell Atlantic") are Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; Bell Atlantic-West Virginia, Inc.; New York Telephone Company; and New England Telephone and Telegraph Company.

prescribe massive additional cuts in access charges, but cites no material new facts to support its claims and simply ignores the fact that the combination of price caps to limit price increases and ever increasing competition for access services already addresses any genuine concerns. MCI also claims that it needs additional information in order to properly bill the new presubscribed interexchange carrier charge, or "PICC," but ignores the fact that it already receives the information it requires, and in a format it accepted. And it claims that it should be permitted to unilaterally fire customers who have chosen it as their presubscribed long distance carrier solely to avoid paying the PICC, and to instead force local exchange carriers to collect the fee.

Moreover, the timing of MCI's so-called "emergency" petition makes no sense. It is too late to be a petition for reconsideration, but far too early to assess the impact of changes implemented only two months ago – particularly when MCI has made some of the same arguments in its pending appeal.

In short, MCI's misdirected, ill-founded, and repetitious petition should be quickly and decisively rejected.

I. MCI And Other Long Distance Carriers Have Failed To Pass Through Access Charge Reductions.

MCI claims that it has passed through prior access reductions to consumers, and that the Commission and local exchange carriers are to blame for its recent price increases. In reality, MCI's claims rely on economic sleight of hand to hide the fact that, far from passing through access reductions, MCI and other long distance carriers have jacked up prices to line their own pockets.

Following close on the heels of the access reform rate restructure that took effect on January 1, MCI and its fellow long distance carriers imposed new charges on their customers that will produce an estimated *\$2.5 billion* in increased revenues. While MCI pointed to the Commission and to new per line PICC charges from local exchange carriers as requiring these charges, nothing could be further from the truth. In reality, the creation of the new per-line charge was more than offset by massive reductions in per-minute rates. And even if universal service support is taken into account (including both direct assessments on long distance carriers and any exogenous increases in access rates to reflect universal service contributions), the impact is a net *reduction* in long distance carriers costs. *See* Exhibit 1.

In its petition, MCI does not and cannot point to actual price decreases to offset these increases. Instead, without revealing any of the underlying data, it relies on conclusory claims that its average revenue per-minute has declined, and asserts that this alone proves that prices have declined. But even assuming for present purposes that MCI's average revenue per-minute has declined, this does nothing to show that it has reduced prices. On the contrary, as is explained in the accompanying affidavit of Dr. William Taylor, given the migration of some customers from basic service rates to discount plans, it is entirely possible that MCI could have raised the price of *every* service while its average revenue per minute could still have fallen. Taylor Aff. ¶ 5 (attached as Exhibit 2).

Moreover, MCI's own data on average revenue per-minute actually *contradicts* its claims. MCI compares a hypothetical bill from January 1, 1997 with a similar bill from January 1, 1998 to demonstrate that there are "savings" even after taking into account the

new PICC pass-through charge that it imposed. MCI Pet. 12. But it fails to mention that, in July of 1997, all long distance carriers benefited from a massive access rate reduction that MCI and AT&T committed to pass through to their customers, and, on January 1, 1998 benefited from an even larger reduction in per-minute access rates as a result of access reform. When both these cost reductions are taken into account, it is shockingly apparent that MCI has not passed through the reductions as promised. On the contrary, MCI's own numbers show that low volume callers now are paying *more* notwithstanding the massive reductions in MCI's costs. Taylor Aff. ¶¶ 9-12.

The single example of a price reduction that MCI can point to is the introduction of a Five Cent Sundays promotion. But, as MCI explains, this promotion is not a pass-through of access reductions, but an effort to "increase[] call volume, sales productivity and customer retention levels." "MCI Quarterly Revenue Tops \$5 Billion For First Time," MCI Corporate Release (rel. Jan. 29, 1998). And to the extent that MCI's traffic moved to the lower Sunday rates, MCI benefited from reduced costs by moving demand away from higher cost peak load periods. Taylor Aff. ¶¶ 6-8. It is simply disingenuous for MCI to link this profitable promotion with its obligation to pass through access charge reductions.²

Another possible explanation for decreases in average revenue per-minute further emphasizes that this measure reveals nothing about actual price levels. AT&T has begun an aggressive campaign to "crackdown" on "occasional callers" - a term that refers to 20

² Likewise, to the extent MCI's average revenue per-minute has been reduced by free minutes given away in promotions to win back customers, it is misleading to attribute that result to a pass through of access charge reductions as well.

million customers who make fewer than 3 long distance calls per month. "AT&T's Armstrong Announces Job Cuts, Says Senior Management 'Owns Strategy,'" Communications Daily at 2 (Jan. 27, 1998). AT&T Chairman Armstrong claims his new approach "will be to force" these residential customers "into a pricing plan that allows [the] company to make money or allow them to leave." *Id.* Because these occasional callers are frequently elderly basic rate payers,³ dropping them will increase the proportion of customers on relatively cheaper calling plans and cause average revenue per-minute to fall. If MCI has instituted a similar policy, its reliance on average revenue per-minute is especially troubling.

Moreover, the actual experience of MCI's own loyal customers shows that it has managed to quietly raise prices over time even for the customers who do sign up for a discount plan. MCI's practice has been to attract customers through the frequent introduction of new discount plans with great fanfare, and then, as these plans are overtaken by new promotions, quietly raise the rates for those customers that don't switch to the latest plan. For example, an MCI customer that signed on for its highly touted MCI Minutes plan in December 1996 was hit with *five* separate price increases between June of 1997 and January of 1998, including an increase in the per-minute rate from 15 cents to 21 cents. *See* Gumper Decl. (attached as Exh. 3).

In short, MCI has used the implementation of access reform to continue its practice of increasing long distance rates, while blaming others.

³ One analyst explained that "AT&T wants to be in the business of serving high-value customers, and maybe grandma needs to go the way Ma Bell went: away." Scott Moritz, "AT&T Developing Plans to Make Money from Unprofitable Customers," The Record, Hackensack (Mar. 12, 1998).

II. The Commission Should Not Prescribe Additional Access Rate Reductions.

Just two weeks after briefing was completed on a reconsideration petition by CFA that raises the same issue, MCI now claims that the Commission should start a whole new rulemaking to overhaul the access charge system yet again and to prescribe access rates at forward-looking cost. MCI's redundant petition, which is based on many of the same arguments as its pending appeal of the access reform order, should be denied.

Like CFA before it, MCI claims that the Commission should abandon its reliance on the combination of price caps and market forces because competition is not developing. MCI Pet. at 5. In reality, as demonstrated in the oppositions to the original CFA petition, and as regulators and competitors alike have recognized,⁴ competition in the access business (like the local market generally) is growing rapidly, and prescribing rates at forward-looking cost actually would have the perverse effect of deterring further competitive entry.

⁴ See, e.g., Remarks by William Kennard, Chairman, FCC, to Legg Mason Telecom Investment Precursors Workshop (Mar. 12, 1998) ("We see competition in New York City, where over 20% of the business market is being served by carriers other than the incumbent Bell company."), *id.* ("There are over one hundred competitive local exchange providers around the country, with a market value of 14 billion dollars. They've become attractive investments for the likes of WorldCom and AT&T. The top ten CLECs have switches in 132 cities spanning 33 states and the District of Columbia."); Remarks by William Kennard, Chairman, FCC, to NASUCA (Feb. 9, 1998) ("[T]he signs are that competition is indeed coming. We recently held a hearing at the FCC on the status of local telephone competition. And it was clear to anybody paying attention that the Act has successfully moved us in the right direction – toward greater competition."); A. Mandl, "Manager's Journal: Telecom Competition Is Coming Sooner Than You Think," *The Wall Street Journal*, p. A18 (Jan. 26, 1998) ("Instead of arguing over the terms under which they will be allowed to use existing monopoly networks, the new competitors are building their own advanced, high-speed communications facilities that will give them direct access to their customers, bypassing the remnants of the old Bell system....Already these 'facilities-based' carriers provide service over their own lines to more than 500,000 local telephone lines.").

Like CFA before it, MCI claims that the Commission's lack of jurisdiction to set prices for unbundled network elements somehow undermines the access reform decision. MCI Pet. 5. But as the Commission through its chairman has recognized, "virtually every state in the union has adopted" the forward looking price standard urged by this Commission. Reed Hundt, Chairman, FCC, Remarks to the Chamber of Commerce, (May 29, 1997). Indeed, MCI itself has acknowledged that "the vast majority" of state commissions have adopted such an approach.⁵

And like CFA before it, MCI claims the fact that the Act requires competing carriers to do any combining of unbundled elements themselves should somehow undermine the Commission's confidence in its access reform decision. MCI Pet. at 5. But the fact remains that competitors still can purchase unbundled elements and still can combine them with other elements or their own facilities. And, as competing facilities-based carriers have pointed out, by preserving a meaningful distinction between resale and the purchase of unbundled elements, the Act's requirement preserves the incentive to deploy competing facilities.⁶ The result, therefore, will be to increase, rather than decrease, access competition.

⁵ *Southwestern Bell Telephone Co. v. AT&T*, U.S. Dist. Ct., W.D. TX, No. A-97CA-132-SS, MCI's Response to Motion for Summary Judgment at 7 (June 16, 1997).

⁶ See, e.g., Telecommunications Reports, at 18 (Nov. 10, 1997) (quoting James Allen, CEO of Brooks Fiber Properties, Inc.) (Explaining that facilities-based carriers "owe a debt of gratitude to the Eighth Circuit. ... The fact that there will be no free ride' for [long distance] carriers seeking a cheap method of local market entry is a 'plus for our industry.'"); Time Warner Communications Memorandum in Support of Petitions for Rehearing, at 3 (8th Cir. Oct. 1, 1997) (Explaining that "the careful balance crafted by Congress would be upset and the goals of the Telecommunications Act frustrated if local entrants could undermine the comprehensive scheme of the Act by manipulating [its]

In short, there are simply no changed circumstances that would merit the Commission reversing its access reform decision.

III. The Commission Should Not Relieve Long Distance Carriers Of Their Obligation To Pay The PICC For Lines Of Those End Users That They Choose To Terminate As Customers.

MCI also echoes a recent Sprint petition that asked the Commission to change its rules to absolve long distance carriers of the obligation to pay a PICC for customers who do not presubscribe to a new long distance carrier after their selected carrier terminates their service. In effect, this would allow MCI to fire its low revenue customers, and to force local exchange carriers into the untenable position of trying to collect PICCs from customers who in many instances are likely to still consider MCI to be their presubscribed long distance carrier.

As Bell Atlantic and others demonstrated in their comments on the Sprint petition, it is premature (at best) to consider imposing such a change before even accumulating any experience in administering the PICC.⁷ What's more, in a letter attached to MCI's petition, *see* MCI Pet. Exh. B, Sprint itself questions the implications of the proposed change. In particular, Sprint questioned whether customers would be notified of MCI's action to "un-pic," asked for other examples of when MCI would use the "un-pic" weapon, and asked for an estimate of the number of times MCI expects to invoke the "un-

provisions ... to acquire complete services as platforms of network elements, and to have those services priced at cost rather than at wholesale rates as required by [the Act].")

⁷ Bell Atlantic attaches (as Exhibit 4) and incorporates, its opposition to the Sprint petition.

pic” process. The fact that answers don’t exist only serves to reinforce the fact that MCI’s wide ranging proposal should be denied.

IV. Long Distance Carriers Already Receive Adequate PICC Billing Information.

MCI also asks the Commission to adopt new rules dictating the specific billing information that local exchange carriers are required to provide with respect to PICCs, based largely on its claim that it does not have the information it needs to bill its own customers. In reality, MCI and the other long distance carriers already receive adequate information through the current process.

Bell Atlantic already has agreed to provide MCI and other long distance carriers exactly the type of line specific data they claim they need – namely, “customer-specific information about the number and type(s) of PICCs” it is assessing.⁸ This detailed record, known as “Series 30 Records,” is an industry standard that provides a format for the provision of line level detail to support a summarized PICC bill. The Series 30 Record specifies the PICC type for each line (primary residential; non-primary residential; single line business; multi-line business; ISDN, etc.), which is the very information MCI says it wants.

Moreover, this data will be provided on a timely basis, five to seven business days after the original bill is sent out. This short gap in time is necessary to allow the billing

⁸ *Access Charge Reform*, 12 FCC Rcd 16606, ¶ 16 (1997).

system to generate the detailed backup and to send such detailed information to the long distance carriers.⁹

MCI's claim that it needs backup data in advance of actual billing is built on the false premise that the long distance carriers are merely a conduit for collection of the PICC from end-users. *See, e.g.*, MCI Pet. 22 ("the Commission should hold the ILECs responsible for collection of the PICC from the end user until such time as the ILEC can provide all necessary information to the IXC in advance of billing"). In fact, the Commission specifically rejected the direct assessment of PICCs to end users that have presubscribed to a long distance carrier. The PICC, as its name suggests, is a charge to the presubscribed long distance carriers who have already benefited from offsetting reductions in the per-minute access rates. Not only is the long distance carrier under no obligation to pass the charge on to its customers, but, as demonstrated above, collection by the long distance carriers of a per-line charge is merely a windfall that is not tied to the cost of the PICC.

There is also no basis to have a common standardized snap-shot billing date as sought by MCI. MCI's PICC bills are already done on a snap-shot date for each Bell Atlantic interstate tariff. Imposing federal uniformity over private billing arrangements is a step in the wrong direction as the Commission moves away from pervasive regulatory controls. Carrier bills are produced by Bell Atlantic on a staggered basis to avoid strain on billing systems and to thereby keep costs low. MCI's proposal would require

⁹ Because of the need to identify non-primary lines, and modify customer records to accommodate the new PICC, these detailed records were not available on the same schedule for the first three months of the year. By filing its petition at the inception of

significant investment in billing system capacity that would harm all customers by driving up billing costs for no good reason. MCI does not receive access bills on a uniform time-table with other carriers today and the addition of the PICC does not create any new need for such uniformity.

MCI is correct, however, that all parties would be better served by a uniform definition of non-primary lines. Given the Commission's decision to proceed with the non-primary line distinction in advance of such a uniform definition, any future definition must be implemented on a prospective basis. MCI's suggested definitions however, would create, rather than solve, definitional problems. For example, linking the definition of a non-primary line to the long distance carrier's billing choice would entail a reclassification of a line every time the customer changed his or her presubscribed long distance carrier. While MCI may choose to bill only those customers that have more than one line subscribed to its own service, that cannot serve as a basis for a local carrier's charges. The non-primary line definition also controls the level of the subscriber line charge – which is completely independent from the choice of long distance carrier. MCI's effort to make that link is illogical and unworkable.

Similarly, MCI's proposal to use a billing telephone number as the basis for non-primary line determination is also impractical. Bell Atlantic is not able to assign multiple residential lines to one billing telephone number throughout the Bell Atlantic service area.

access reform, MCI failed to give the agreed upon billing procedures a chance to work in a normal fashion.

In contrast, Bell Atlantic's definition of a residence primary line (first line with the same name at the same service address) is more straightforward to administer and relies on the local carriers' own billing records. Moreover, it creates the auditable record that MCI is seeking.¹⁰

Finally, MCI complains that it is not receiving information concerning the pass through of local carrier universal service costs. MCI Pet. 25. In fact, Bell Atlantic has already provided MCI with a breakdown of how much universal service exogenous cost was associated with each of its price cap baskets. As Bell Atlantic explained, attributing these costs to a specific rate element is not possible "since the FCC's rules dealt with the allocation of the Universal Service obligation to specific Price Cap Baskets and Categories, but not with the recovery of the obligation (via the rates for individual services or rate elements within any Basket)." February 10, 1998 Letter to Mr. Dennis J. Kern, Vice President MCI Eastern Financial Operations. Attributing any individual cost to a particular rate simply is inconsistent with price cap regulation.


¹⁰ While such billing information is auditable, MCI has not advanced a justification to support such an audit. Even if such an audit were appropriate, which it is not, the expense for such an undertaking should be imposed on the customer seeking the audit.

Conclusion

For these reasons, the Commission should reject MCI's petition.

Respectfully submitted,

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EXHIBIT 1

BELL ATLANTIC

**INTERSTATE ACCESS REFORM
INDUSTRY IMPACT ANALYSIS**



INTERSTATE ACCESS REFORM INDUSTRY IMPACTS

On January 1, 1998, a series of regulatory changes became effective as the Federal Communications Commission continued its efforts to accelerate competition in all telecommunications markets. The new universal service fund was initiated which requires all telecommunications carriers to contribute to the schools, libraries and rural health care fund, as well as the expanded low-income, rural, high cost and insular mechanisms. Additionally, the Commission began a much-needed restructuring of interstate access charges and reduced usage-sensitive interstate access charges.

As part of that restructure, price cap incumbent local exchange carriers (ILECs) increased subscriber line charges to many customers and began charging flat rated per line charges (PICCs) to long distance carriers. At the same time, the local exchange carriers reduced their "per minute" charges to long distance carriers by over \$3 billion.

This analysis is intended to quantify the impacts to the industry as a result of these changes.* The following charts are included:

- "What happened on January 1st?" (pg. 3) lists the changes that took effect on January 1, 1998 that impacted the ILECs' and long distance carriers' costs and rate structures.
- "IXC Impacts" (pg. 4) provides an overview of the impact on the long distance carriers.
- "Access Reform IXC Impacts" (pg. 5) provides an estimate of how the January 1, 1998 changes increased the long distance carriers' costs for Universal Service and for PICCs charged by the ILECs and which also resulted in significant reductions in usage charges to the long distance carriers.
- "Universal Service and PICC -- New Charges by IXC's" (pg. 6) provides a summary of the new charges that the IXCs implemented to recover their increased universal service and PICCs costs.
- "Estimated Impacts of IXC New Charges" (pg. 7) provides an estimate of the total annual new revenue the IXCs may collect from these new charges.
- "Access Reform Industry Impacts" (pg. 8) provides a more detailed look at how the January 1, 1998 changes impacted the different industry segments and consumers.

Following the charts are appendices with additional explanations and details about the data included in these charts. Appendix 1, attachments A - D, provides detailed explanations of the "Access Reform Industry Impacts" chart. Appendix 2, attachment E, provides data in support of the "Estimated Impacts of IXC New Charges" chart.

* This analysis updates the analysis provided to Mr. J. Schlichting on February 20, 1998 by Mary McDermott of the USTA. The updates reflect further tariff revisions by the price cap ILECs and the growth of the 1996 base period demand reflected in the January 1, 1998 tariffs to current 1998 demand estimates.

What happened on January 1st?

- New Universal Service Fund
 - » Schools and Libraries
 - » Rural Healthcare
 - » Expanded Lifeline
 - » Expanded High Cost
 - » All carriers contribute
- Increased SLCs
 - » Multiline Business
 - » Residence Additional Line
- Access Reform for Price Cap LECs Implemented
 - » New flat rated access charges - PICCs
 - » Usage rate reductions
- New IXC charges to end users

IXC Impacts

- **Decreased costs** - \$ 190M
 - » Estimate of total annual cost decrease as result of both Access Reform and Universal Service changes implemented on January 1, 1998

- **Increased revenue** - \$2,496M
 - » Estimate of annual additional revenue as result of end user price increases

Access Reform IXC Impacts

January 1998
Current Estimate

IXC Industry Impacts

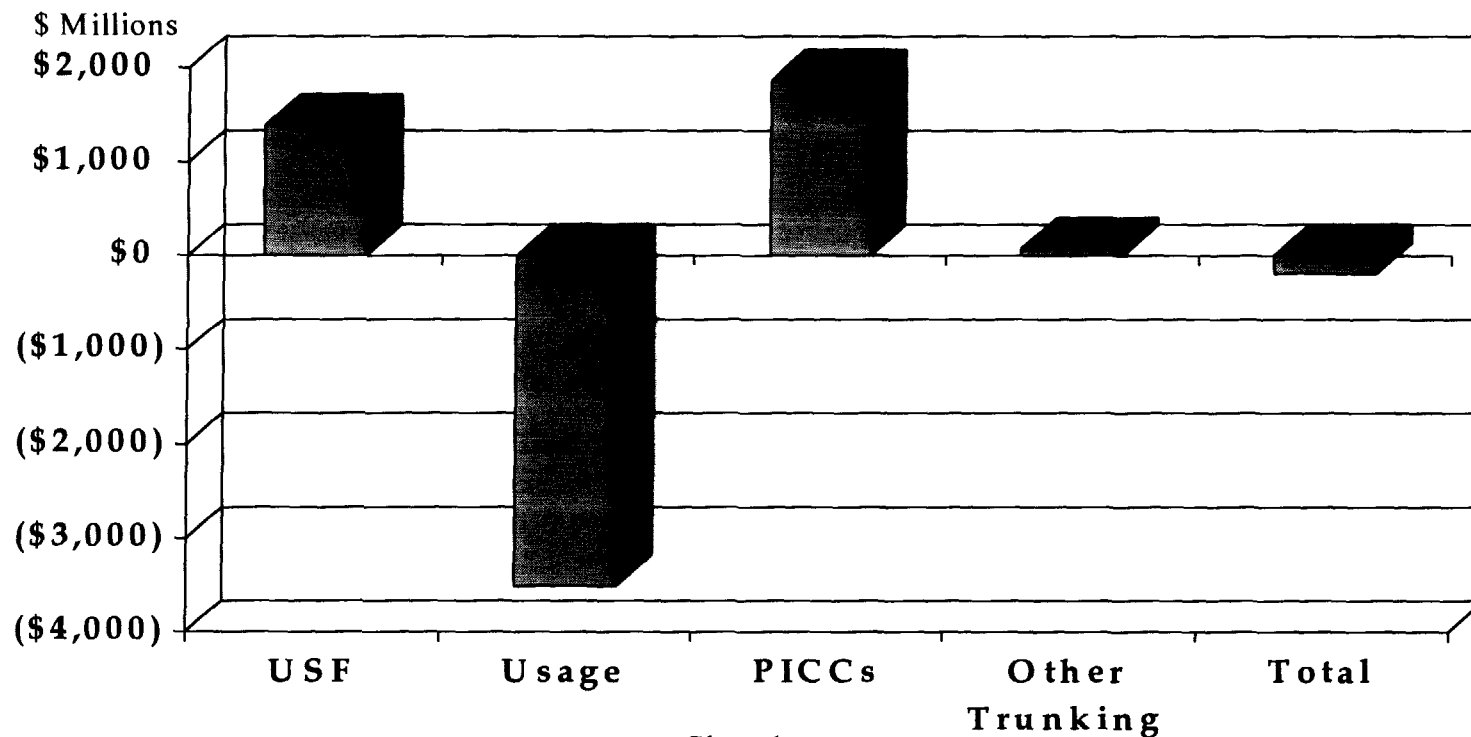


Chart 1

Universal Service and PICC - - New Charges by IXC's

- Universal Service

For Business Customers --

- » ATT 4.9% surcharge applied to total Interstate and International billed amounts
- » MCI 4.4% to 5% surcharge applied to total MCI billed amount
- » Sprint 4.9% surcharge applied to total Interstate and International billed amounts

- Access Restructure

» For Small Business Customers

- AT&T and Sprint PICC pass through of \$.53 per billed location
- MCI PICC pass through \$2.75 per line

» For Large Business Customers

- AT&T PICC pass through of \$5.50 per billed location
- MCI and Sprint \$2.75 per line


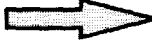

» Residence Accounts

- MCI \$1.07, ATT \$0.95 and Sprint \$0.80 per account

» Other IXC's:

- Expected PICC pass through of \$.53 and \$2.75 rates for business, but not for residence and USF surcharges of between 4.5% and 5.5%

Estimated Impacts of IXC New Charges

- Universal Service "Connectivity" Charge
Average 4.8% on 50% of Business Revenue \$ 607M Annually
- PICC for Single Line Business
\$.53/line/month  \$ 31M Annually
- PICC for Multi Line Business
\$2.75/line/month on 50% of lines  \$ 712M Annually
- PICC for Residential Accounts
Average \$0.96 per account  \$ 1,145M Annually
- **Total** **\$2,496M Annually**

Access Reform Industry Impacts

January 1998

Current Estimate

(1996 Demand Grown to Reflect Current Demand)

Universal Service Funding	LECs	IXCs	Other	Consumers	Total
Education & Healthcare	\$ (535)	\$ (554)	\$ (212)	\$ -	\$ (1,300)
Lifeline & High Cost	\$ (306)	\$ (1,826)	\$ (104)	\$ -	\$ (2,236)
Eliminate Old Fund	\$ -	\$ 993	\$ -	\$ -	\$ 993
Sub Total	\$ (841)	\$ (1,386)	\$ (316)	\$ -	\$ (2,543)
End User Charges					
SLC Increases	\$ 831			\$ (831)	\$ -
Access Rates					
Usage:					
LTS & DEM	\$ (1,016)	\$ 1,016			\$ -
Access Reform	\$ (3,289)	\$ 3,289			\$ -
USF Flow Through	\$ 792	\$ (792)			\$ -
PICCs:					
Access Reform	\$ 1,859	\$ (1,859)			\$ -
PICCs to end Users	\$ 98			\$ (98)	\$ -
Other Trunking					
Access Reform	\$ 34	\$ (34)			\$ -
USF Flow Through	\$ 65	\$ (44)		\$ (22)	\$ -
LEC Toll Rates					
USF Flow Through	\$ 30	\$ -	\$ -	\$ 30	\$ 60
Sub Total	\$ (1,426)	\$ 1,576	\$ -	\$ (90)	\$ 60
Total	\$ (1,436) *	\$ 190	\$ (316)	\$ (920)	\$ (2,483)

* This decrease is offset by funds received from the USF. The net decrease is about \$300M which is a result of the FCC Orders in November 1997 and due to some LECs not raising their SLCs to the cap.

Chart 2

Appendices and Attachments